Intrepid Small Cap Fund

Discipline Makes the Difference.

4th QUARTER 2012 COMMENTARY

PERFORMANCE

Average Annualized Total Returns as of December 31, 2012

	Inception Date	3 Month	YTD	1 Year	3 Year	5 Year	Since Inception
Intrepid Small Cap Fund - Inv.	10/3/05	1.49%	8.87%	8.87%	9.63%	11.35%	11.51%
Intrepid Small Cap Fund - Inst.	11/3/09	1.54%	9.08%	9.08%	9.89%	-	11.35%
Russell 2000 Index		1.85%	16.35%	16.35%	12.25%	3.56%	4.73%^

^Since Inception returns are as of the fund's Investor Class inception date. Since the inception date of the Institutional Class, the annualized return of the Russell 2000 Index is 14.98%.

Performance data quoted represents past performance and does not guarantee future results. *Investment returns and principal value will fluctuate, and when sold, may be worth more or less than their original cost. Performance current to the most recent month-end may be lower or higher than the performance quoted and can be obtained by calling 866-996-FUND. The Fund imposes a 2% redemption fee on shares held less than 30 days. Performance data does not reflect the redemption fee. If it had, returns would be reduced.*

Per the Prospectus, the Fund's annual operating expense (gross) for the Investor Shares is 1.46% and for the Institutional Share class is 1.21%. The Fund's Advisor has contractually agreed to waive a portion of its fees and/or reimburse expenses such that the total operating expense (net) is 1.41% and 1.16% through 1/31/13, respectfully. In addition, the Fund's Advisor has contractually agreed to waive a portion of its fees and/or reimburse expenses such that the total operating expenses, excluding Acquired Fund Fees and Expenses, (expense cap) does not exceed 1.40% and 1.15% through 1/31/13, respectfully. Otherwise, performance shown would have been lower.

January 4, 2013

The fourth quarter of 2012 unfolded like a Sylvester Stallone highlight reel. The first half of Q4 was *Rocky*, with the Russell 2000 Index down 8% through mid-November. Next, we were faced with an economic *Cliffhanger*, as citizens were bombarded with media coverage that we risked going *Over the Top*. The denouement of the ordeal was an advertised *Victory* engineered by our political leaders, who decided that our nation's balance sheet fell into the pile of *The Expendables*. The only way the fiscal cliff negotiations could have been more of a circus is if Howie Mandel himself was reporting the play-by-play on the steps of the Capitol. Deal or No Deal?

The result of the Great Compromise is a projected reduction in the deficit of 6%. Color us unimpressed. Speaking of coloring, politicians' understanding of the concept of a budget apparently never made it past a first grade level. Here's our message to a childish Congress, in language they can comprehend: *Your failure to show proper discipline with Fiscal Clifford leaves us with a Big Red Deficit. Instead of the ear-to-ear grins you sported during New Year's press conferences, you should have been crying in a corner.*

In the fourth quarter of 2012, the Intrepid Small Cap Fund (the "Fund") gained 1.49% versus a 1.85% increase in the Russell 2000 benchmark. The Fund outperformed during the first half of the quarter, when stocks were declining, and underperformed over the second half, when stocks were rising. Cash was 48.7% of Fund assets at December 31st. For all of 2012, the Intrepid Small Cap Fund rose 8.87% compared to a 16.35% gain for the Russell Index. Our high cash levels accounted for the Fund's underperformance, since the Fund's equity holdings returned 19.7% for the year.

While the Russell 2000 has been the official benchmark for the Fund and its predecessor separate account portfolio since inception, that index does not define our investment universe well. Over one quarter of companies in the Russell 2000 posted net losses during the past twelve months. More than one fifth reported negative operating income before restructuring charges, interest, and other expenses. We do not purchase companies that have a history of losing money. Between these stocks, microcaps that are too small for us to buy, and a handful of industries that we don't spend much time on, only around half of the Russell 2000 constituents are regularly evaluated for purchase. We have several holdings that can be found in the Russell 1000 index, where about half of the members have market capitalizations below $5 billion. Lastly, we have a few holdings that aren't in either index because they are headquartered outside of the United States (Canada, Sweden).

Top Ten Equity Holdings	(% of net assets)
FTI Consulting, Inc.	3.4%
Ingram Micro, Inc.	3.3%
Global Payments, Inc.	3.2%
Bio-Rad Laboratories, Inc.	3.2%
ManTech International Corp.	3.0%
Amdocs Ltd.	2.7%
Aspen Insurance Holdings Ltd.	2.7%
Newfield Exploration Co.	2.6%
Securitas AB	2.6%
EPIQ Systems, Inc.	2.6%

Top ten holdings are as of December 31, 2012. Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security.

The median Enterprise Value to EBIT ratio for non-financial companies in the Russell 2000 was nearly 16x at the end of the quarter. The median free cash flow multiple was 29x. These ratios are lofty, especially when one considers that earnings growth in the coming years could be hampered by slower economic growth and a lack of margin expansion. As usual, the Russell 1000 Index is not priced as dearly and is trading at a median 13x EBIT and 20x free cash flow. However, these multiples are not cheap either. We typically pay 9-13x normalized free cash flow for new purchases in the Fund. Better valuations are the primary reason that several of our largest positions today have market capitalizations in the $2 to $3 billion range. The Intrepid Small Cap Fund's median market capitalization is $1.5 billion. Our smallest company is WWE with an investable float of $235 million ($600 million market cap), and our largest is Amdocs which currently has a $5.5 billion capitalization.

The Fund's three top gainers during the fourth quarter were FTI Consulting (ticker: FCN), Securitas (ticker: SECUB SS), and Patterson-UTI Energy (ticker: PTEN). FTI Consulting was the Fund's largest position and had the highest percentage gain of all but one other holding. We like FTI's hedged business model and believe there is additional upside. We had not made money on Securitas, the security services provider, before this quarter, but we are fond of its predictable service business and large current dividend. Patterson-UTI was purchased earlier in 2012. It is a major operator of land-based drilling rigs, and our internal valuation was supported both by cash flows and asset values.

The three positions most negatively impacting the Fund in Q4 were Bill Barrett (ticker: BBG), Pan American Silver (ticker: PAAS), and CSG Systems International (ticker: CSGS). These were the top three gainers last quarter. Following CSG's strong gains in Q3, we meaningfully reduced our position, and the stock fell back in Q4. Bill Barrett and Pan American are two of the Fund's more volatile holdings, when judged by the standard deviation of daily stock returns over the past year. The average volatility of an individual holding in the Intrepid Small Cap Fund is 35% compared to 49% for the Russell 2000 Index. The Fund's overall volatility was 7.86% in 2012 compared to 16.09% for the Russell 2000.

Bill Barrett was the worst performer in the portfolio for the quarter and year. The stock struggled from negative sentiment toward natural gas producers, in particular those with high or increasing leverage. Bill Barrett went from having a clean balance sheet two years ago to 2.7x Debt/EBITDAX today. The company increased leverage to fund a transition in its portfolio from dry gas to oil. Several other operators are taking the same path, but their balance sheets are more stretched. Over half of Bill Barrett's revenue now comes from liquids production, and the percentage will grow this year while debt should not increase further. The company cites IRRs of up to 50% on its oil projects, where drilling is focused. If they can achieve anywhere close to this level of return on capital spending, then the recent increase in borrowings will have been worthwhile. At the stock's current price, we think an acquirer could buy Bill Barrett and fully develop its remaining reserves for less than what an average firm would spend to find and develop reserves internally.

We purchased a single name in the fourth quarter, Transaction Network Services (ticker: TNS). Unfortunately, the company was bought out before we acquired a significant position. In this case, our price-conscious buy discipline hurt our performance, and we will explain why. TNS is an international data communications company that provides services to telecom firms, retailers, payment processors, and financial institutions. Telecom services include call signaling, caller ID, number portability, roaming, and clearing. One of TNS's subsidiaries is pioneering Caller ID for cell phones. In the Payments business, the company is an intermediary sitting between small merchants and payment processors that transmits data in a standardized format. They also offer online payment gateways used by firms like Continental Airlines and American Express to connect websites to payment processing networks. Lastly, TNS operates a fast, secure data network used by financial industry participants to connect with other firms through a central access point, eliminating the need for costly dedicated lines.

The company has multiple business lines in different stages of maturity, which may contribute to investor confusion. TNS is a low growth business with recurring revenue of 95%. The stock's yield on projected 2012 free cash flow was 17%. We valued the stock at $17.50, which was 12x our estimate of normalized free cash flow. After researching the company in August and September, we began buying on days when the price fell below $14 per share, which was a 20% discount to our valuation. Regrettably, this limit was only breached on a handful of days, during which we acquired roughly 225,000 shares for a 0.45% weight. The company announced a buyout on December 11th for $21 per share, a 45% premium, which added only 20 basis points to the Fund's overall return. With a higher limit, we would have acquired additional shares and benefited more from this event. Nevertheless, we stick to our discipline for a reason, and there are many other cases where abiding by our required margin of safety has spared us downside. Furthermore, we were paid more for our shares than our appraised value for TNS.

Once in a blue moon, we receive hate mail from the Fund's shareholders. One recent letter offering some friendly advice caught our attention. Sent on December 17th, it pointed out the Fund's "paltry" year-to-date return and "really miserable" three year number (10.28% annualized through 12/17/12). It continued, "You are being overly cautious, which is not warranted… Sometimes in life you have to take risks. This past year was a decent year to take a risk with equities….I hope you will do better in 2013. As long as the market stays up, equity funds, as well as bond funds, [should] do well."

We have to agree on his last point (the logic is unassailable), and no, Yogi Berra did not pen the letter. We'll use this as another opportunity to clarify our investment philosophy to our shareholders. Unlike some other investment managers, we don't view risk as trailing our benchmark in an up market—risk to us is losing money. In rising markets, it's understandable to lament about money left on the table, especially regarding a Fund that is almost half in cash. Our significant cash directly reflects the challenges we are experiencing in identifying undervalued small capitalization securities. Other funds may not be having this issue because most of them use a different investment process. We expect to utilize our cash to purchase attractively priced equities when they materialize. Patience is of paramount importance in this business and is fundamental to our approach to investing. Thank you for your investment.

Sincerely,

Jayme Wiggins, CFA
Intrepid Small Cap Fund Portfolio Manager

Mutual fund investing involves risk. Principal loss is possible. The Fund is subject to special risks including volatility due to investments in smaller companies, which involve additional risks such as limited liquidity and greater volatility. The Fund is considered non-diversified as a result of limiting its holdings to a relatively small number of positions and may be more exposed to individual stock volatility than a diversified fund.

The Advisor believes that current market conditions warrant a defensive position from the requirement to invest at least 80% of its net assets in equity securities of small capitalization companies.

The Russell 2000 Index consists of the smallest 2,000 companies in a group of 3,000 U.S. Companies in the Russell 3000 Index, as ranked by market capitalization. The Russell 1000 Index consists of the largest 1000 companies in the Russell 3000 Index. You cannot invest directly in an index.

IRR is the discount rate often used in capital budgeting that makes the net present value of all cash flows from a particular project equal to zero. Basis Point is a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. Cash Flow measures the cash generating capability of a company by adding non-cash charges and interest to pretax income. Free Cash Flow measures the cash generating capability of a company by subtracting capital expenditures from cash flow from operations. EBIT is calculated as the company's Earnings before Interest and Taxes. EV/EBITDAX is the ratio of Enterprise Value to Earnings before Interest, Taxes, Depreciation, Amortization, and Exploration expenses. Enterprise value equals market capitalization plus debt minus cash. Standard Deviation is a statistical term that measures the amount of variability or dispersion around an average. Debt/EBITDAX is the ratio of debt to Earnings before Interest, Taxes, Depreciation, Amortization, and Exploration expenses.

Opinions expressed are subject to change, are not guaranteed and should not be considered investment advice or recommendations to buy or sell any security.

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